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Chicago, Illinois**

**CREDIT WITHOUT COLLATERAL**  
**Chicago Bar Association**  
**Friday, January 13, 1933**  
**By Edward A. Filene**

**G**entlemen: In order to accept this very kind invitation, I was obliged to forego another meeting to which I was invited which has for its purpose breaking so many rules governing our pet superstitions on Friday, the 13th, of January that henceforth we shall be able to walk under ladders with impunity, break looking glasses whenever we can afford it and watch a black cat amble past in front without feeling an inclination to kick it. I have, therefore, no hesitation about addressing this organization on a day so generally held to be unpropitious. I do, however, have a sound reason for hesitating to appear thus openly before a gathering of lawyers to advance views which may seem to violate some of the precedents by which, as I understand it, the legal fraternity is largely guided. Someone called my attention recently to the fact that twenty-two of the thirty-two presidents of the United States (including the president-elect in the number) followed the legal profession. Ours has been primarily a government by lawyers. Conscious of that fact, what is a shopkeeper to do before an organization like your own? Obviously he cannot argue; his best course possibly is to present his views and then make a hasty exit.

I realize that, in various languages the word "law" came from the same root word—the word "lay"; that Statute comes from the Latin verb meaning "to stand"

and that in the accepted sense of legal procedure there is an element of fixity. The law has been defined as "the binding custom or practice of a community" and I full well appreciate that there must be a definiteness about the law and that there could be no civilized society if laws were in constant process of change. I realize, by the same token, that one of the objectives of civilized society, by no means as yet attained in perfect measure, is such interpretation of law as will make for its impartial application. But laws do change notwithstanding; it is for that purpose that we have legislatures. The red light at the traffic intersection was not needed when the city street was a country road over which only an occasional ox cart labored along on its weary way. Sir Edward Coke, one time Chief Justice of England, once said that "reason is the life of law; nay the common law itself is nothing else but reason" and Edmund Burke defined the law as "beneficence acting by rule." I prefer these definitions because once we appreciate that reason enters into the process of law and that the whole process of law making and of the interpretation of law by courts has "beneficence" as its motivating influence, it is appreciated why lawyers have always played such an outstanding part in the development of the social, economic and political life of the United States. Another good friend of mine called by attention recently to a very

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extraordinary definition of lawyer. "A lawyer" reads this particular definition, "is any one of the various trailing brambles of New Zealand which impedes progress in the brush." I appreciate that this is Chicago and not New Zealand.

I am indebted to your colleague and associate Willard King, I believe, for the subject of this paper. I might say in passing that Mr. King has been for years and remains the staunch friend, the valued counsellor and one of the most loyal adherents of the credit union in the central west. I am glad to take this opportunity to publicly thank him for splendid service of great value and for cooperation which has made possible the beginning of the credit union development in Illinois and the more rapid progress which is now being made.

I am to discuss credit without collateral" and I interpret "collateral" as to mean "an obligation or security attached to another obligation to secure its performance." I am not unmindful of the assertion, credited I believe to J. Pierpont Morgan, to the effect that "character is the best collateral." As a matter of fact we maintain, in the credit unions, that we have established the truth of that contention even though in usual business practice and in large scale banking it has not been given any considerable credence in practice.

Before I can discuss the significance of "credit" as based on our credit union experience, I must allude briefly to that experience as I appreciate that, quite naturally, many of you haven't the slightest idea what a credit union is. Definitions are at best dry and uninteresting and possibly we should get the business of defining the "credit union" over with as quickly as possible. A credit union is a cooperative credit society, organized in accordance with the Illinois Credit Union Law (enacted in 1925) and functioning under the supervision of the State Auditor of Public Accounts like any other banking institution, self-managed, limited in the given case to a specific group of people, supplying its

members with an easy and convenient way of saving money and thereby enabling them, with their own money and under their own management, to take care of their own short term credit problems at normal rates of interest. It is a thrift plan; a credit plan; a plan for educating its members in the way and manner of managing their own money for their own maximum service. I will take one very simple illustration. Nine years ago we organized a credit union to serve 120 employees of the Brockton Post Office as an experiment. Twelve of the employees started the credit union with eighteen dollars and fifty cents after getting a right to operate a credit union from the Massachusetts State Banking Department. The plan worked; more and more employees joined and they saved systematically and were soon able to make loans. Later on another credit union was organized within a city post office and then another and another until we have 306 of them; their average age is five years; they started, each one of them, with a few dollars and a few members; they now have a combined membership of over 60,000; these members have combined savings of better than six million dollars and the credit unions have made nearly 200,000 loans totaling better than twenty-two million dollars—with their own money, under their own management and without losses. There are now credit union laws in 35 states and the last Congress enacted such a law for the District of Columbia; there are credit unions extending from one which serves employees of the Maine Central Railroad at Portland, Maine to one composed of employees of a moving picture company at Universal City, California. There are small ones, limited to employee groups of fifty or so; the Municipal Employees Credit Union of the City of New York has 14,000 members. Some of them are larger than the average bank in the state in which they operate; they are composed primarily of wage workers although during the past

two years there has been a rapid increase of interest in the organization of credit unions of farmers in cooperation with such organizations as the National Grange, the American Farm Bureau Federation and the Farmers' Union. There are credit unions in factories, in mills, and stores, among state and municipal and federal employees, among farmers and in American Legion Posts, in Catholic Church



**Raiffeisen**

parishes and in Jewish synagogues. While most of our energy has been spent during the past ten years of the credit union work, getting the needed credit union laws, yet we have over 1,800 credit unions in over sixty successful varieties, and they have, despite their composition, weathered the industrial depression in exceptional fashion. The sort of folks who belong to the credit unions, average wage workers, are doubtless most hard hit by the hard times because they are so completely dependent on their earning power. It might be logical to conclude that credit unions would be the first type of banking to yield to hard times. Quite the reverse has proved to be the truth. Had the banks, taken as a whole, shown the durability of the credit unions during this period of industrial distress, there would have been no bank failures and no need for the Reconstruction Finance Corporation. Before I undertake to analyze this good record and attempt to draw some conclusions from it, may I point out that there is nothing new, strange and experimental about credit unions. I am talking—not of a theory but of an accomplishment in fact with enough precedents behind it to satisfy the most legally minded legal mind. For the credit union originated in Germany eighty-four years ago; it spread from Germany to various parts of the world; the first credit union in North America was organized in Levis in the Province of Quebec 33 years ago; the

Massachusetts credit union law was enacted 24 years ago; I personally contacted credit unions in Germany a quarter of a century ago, studied their operations in various parts of the world and, through the Credit Union National Extension Bureau, have carried on for over eleven years the most elaborate experimentation with cooperative credit ever attempted.

Our development has been slow and has been difficult. The way of the pioneer is never easy; it is better for the new thing to win its way and to grow strong overcoming obstacles. Our reaction to the new thing is negative and Missouri has exported doubters apparently to every nook and corner of the world if there is any truth in the canard that out of Missouri has come all the doubting Thomases in the world. We needed only this depression to try the credit union in its white heat of disaster. We have no pride in our progress to date; there are only a few credit unions in the United States; they are not very large, some of them; they have been obliged to Americanize, in an evolutionary way, what was essentially a German conception. But may I point out that there were 425 credit unions organized in Germany during the forty years of organization activity devoted to credit union development by Frederick William Raiffeisen, the great father of cooperative credit, and that in 1928 there were over 50,000 credit unions in Germany alone. In the United States 457 credit unions were organized in 1932, possibly a harbinger of the more rapid development immediately ahead of us.

What then is the larger lesson of the credit Union? I think it will be generally admitted that there is something vitally wrong with the world and with the part of it with which we are primarily concerned as American Citizens. Obviously there must be new thinking, a reassembling of facts and the adjustment of our processes of thought to this new era. I have been for some time an advocate of mass

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production methods; it has seemed to me that mass production meant economical production and that the new machinery not only unloaded burdens from the backs of the people but that it might bring the earth and the fullness thereof within the reach of everybody. Our difficulty has been that we are trained to a wrong sense of profit. We welcomed the new machinery because it replaced man labor and increased production, automatically decreasing production costs and increasing net profits. That was consistent with our old way of thinking; the industrialist of the old era which we are trying very painfully to outgrow thought in terms of production at the lowest possible labor cost. He thought of labor and capital as conflicting elements, with his own best interests dictated by the necessity of driving the hardest possible bargain. He did not stop to think that there isn't much sense in increasing production unless you increase markets. If we could imagine one machine which would do all the work in the world, ownership of it would not be profitable when its operation had automatically made dependents, without buying power, of all of the peoples of the world. In the United States the value of our manufactured products increased approximately 7,000 percent during the past century; our population was increasing 700% during that period; obviously 700% more people will not consume 7,000% more goods unless they have a proportionately greater buying power than they had in the beginning; yet statistics show that the percentage relationship of the total value of manufactured products to the total paid for labor over the hundred years, according to the statistics, shows a decrease instead of popular buying power increasing so that the masses of the people could use up the new production, it was decreasing. Meantime along came some wars and the most recent war resulted in the financial prostration

of the world and our exports dropped in a few years from five billion and a fraction dollars in value to one billion and a fraction dollars. Would the obvious answer to all this not seem to be that the United States must bravely assume the leadership in world affairs that will get us out of the international mess we are in, recreating normal world markets in the process, and that there must be such changes in the production of goods as will result in building up the buying power of the masses of the people until, at last, we bring production and consumption into balance; when we do that we shall have a world worthy of the stage of civilization to which we are now supposed to have progressed.

You ask me what has the credit union to do with all this? We do not overestimate the importance of the credit union. We have not started yet. We have a few credit unions and all that they have succeeded in doing is to establish a few conclusions of fact. What are those conclusions and what value have they? One conclusion certainly is that from the rank and file of the people can be enlisted men and women capable of managing money with great skill in times of great distress. Can there be anything more hopeful than the conclusion that the masses of people have indeed that quality to develop leadership which Abraham Lincoln so long contended did really exist? Further the credit unions have taught us some lessons about credit, and credit is so much a part of the national and international structure that we may well heed any lessons concerning credit which may come from any source. In a credit union the purpose of the loan is the important thing; it is recognized that a loan to assist a member to build himself up economically automatically gets him into that condition which makes it possible for him to repay his loan. We are all wondering why nations of Europe, after winning from other

nations of Europe the greatest war in history, are not able to pay their debts. It is because the loans were used to destroy wealth instead of to create wealth. We wonder why banks have failed so frequently during the depression; it is because they have never, except in rare instances, approached the problem of lending money solely from the viewpoint of the effect of the loan in contemplation on the borrower. In the credit union we cannot think of collateral in the usual sense because credit union members haven't any. In the bank the collateral has been the important thing; not the purpose of the loan; in many cases not the character of the borrower; and when something has hit the collateral a body blow—then the loan has been in immediate jeopardy because it had not been used to create wealth and because, in so many cases, the bank has overlooked the necessity of examining into the character of the borrower at all.

Further, in the credit union we learn a final lesson; the motto of any credit union might well that contained on the great seal of the United States—"E Pluribus Unum"—

one for all and all for one. We learn in the credit union to cooperate, to sink differences and to work together; we learn something of the principle of life embodied in the theory of the "brotherhood of man"; in a credit union each man is indeed "his brother's keeper." We try to translate into daily practice a fairly high ethical standard. It has been my observation from much contact with men and affairs in the United States, from much study of business and with some understanding of what is going on abroad and of the place of responsibility of the United States in the international picture—that, before we can begin to progress out of the unhappy present into the happier tomorrow we must begin to understand our neighbors; the United States must work with the rest of the world; capital must join hands with labor; we must all take the great and useful machine which man has created and harness it to his use; we must at last realize that man comes first in the great plan of the universe and bring to his immediate and difficult problems the new thinking which they demand.

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